Affordable Housing in Kenya, & Cytonn Weekly #42/2022

Fixed Income

During the week, T-bills remained oversubscribed, with the overall subscription rate coming in at 117.9%, a slight increase from the 116.7% recorded the previous week. Investor's preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 19.5 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 488.0%, up from 253.8% recorded the previous week. The subscription rate for the 364-day paper slightly increased to 39.7% from 39.2% recorded the previous week while the subscription rate for the 182-day paper declined to 48.2% from 139.5% recorded the previous week. The yields on the government papers were on an upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 1.8 bps, 0.8 bps and 4.2 bps to 9.9%, 9.7% and 9.1%, respectively.

In the Primary Bond Market, the Central Bank of Kenya released results for the newly issued bond; FXD1/2022/025 with effective tenors to maturity of 25 years. As per our expectations, the bond recorded an undersubscription of 74.5%, partly attributable to investors' preference for the shorter dated papers as they sought to avoid duration risk. The government issued the bond seeking to raise Kshs 20.0 bn for budgetary support, received bids worth Kshs 14.9 bn and accepted bids worth Kshs 13.7 bn, translating to a 91.7% acceptance rate. The coupon rate and weighted average yield for the bond each came in at 14.2%.

In the money markets, 3-month bank placements ended the week at 7.7% (based on what we have been offered by various banks), while the yield on the 91-day T-bill increased by 4.2 bps to 9.1%. The average yields of the Top 5 Money Market Funds and the Cytonn Money Market Fund remained unchanged at 9.9% and 10.7%, respectively.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 22nd October 2022:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 22nd October 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.7%
2	GenCap Hela Imara Money Market Fund	10.0%
3	Zimele Money Market Fund	9.9%
4	NCBA Money Market Fund	9.7%
5	Dry Associates Money Market Fund	9.5%
6	Sanlam Money Market Fund	9.5%
7	Old Mutual Money Market Fund	9.4%

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 22nd October 2022

Rank	Fund Manager	Effective Annual Rate
8	Madison Money Market Fund	9.3%
9	Nabo Africa Money Market Fund	9.3%
10	Apollo Money Market Fund	9.3%
11	Co-op Money Market Fund	9.2%
12	CIC Money Market Fund	9.1%
13	Orient Kasha Money Market Fund	8.8%
14	ICEA Lion Money Market Fund	8.5%
15	AA Kenya Shillings Fund	8.2%
16	British-American Money Market Fund	7.7%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing to 5.1% from 5.0% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 139.1% to Kshs 31.7 bn from Kshs 13.3 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Eurobonds were on an upward trajectory, an indication of rising risk concerns over the economy by investors on the back of persistent inflationary pressures. The yield on the 10-year Eurobond issued in 2014 increased the most by 0.9% points to 17.3% from 16.4% recorded in the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 20th October 2022;

Cytonn Report: Kenya Eurobond Performance

	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
3-Jan-22	4.4%	8.1%	8.1%	5.6%	6.7%	6.6%
30-Sep-22	17.6%	14.7%	14.0%	15.6%	14.7%	13.2%
14-Oct-22	16.4%	14.3%	13.6%	15.3%	14.4%	12.9%
17-Oct-22	16.7%	14.4%	13.7%	15.5%	14.5%	13.0%
18-Oct-22	16.3%	14.3%	13.6%	15.3%	14.4%	12.9%
19-Oct-22	16.6%	14.3%	13.6%	15.5%	14.4%	13.0%
20-Oct-22	17.3%	14.8%	13.8%	15.8%	14.7%	13.3%
Weekly Change	**0.9%**	**0.5%**	**0.2%**	**0.5%**	**0.3%**	**0.3%**
MTD Change	**(0.3%)**	**0.0%**	**(0.2%)**	**0.2%**	**0.1%**	**0.1%**

Cytonn Report: Kenya Eurobond Performance

	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
YTD Change	**12.9%**	**6.7%**	**5.7%**	**10.2%**	**8.0%**	**6.7%**

Source: Central Bank of Kenya (CBK)

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.1% against the US dollar to close the week at Kshs 121.1, from Kshs 121.0 recorded the previous week, partly attributable to increased dollar demand from the oil and energy sectors against a slower supply of hard currency. On a year to date basis, the shilling has depreciated by 7.1% against the dollar, higher than the 3.6% depreciation recorded in 2021. We expect the shilling to remain under pressure in 2022 as a result of:

i. High global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand as most economies gradually recover,
ii. An ever-present current account deficit estimated at 5.2% of GDP in the 12 months to August 2022, same as what was recorded in a similar period in 2021, and,
iii. The aggressively growing government debt which continues to put pressure on forex reserves given that 68.1% of Kenya's debt was US Dollar denominated as of July 2022.

The shilling is however expected to be supported by:

a. Sufficient diaspora remittances standing at a cumulative USD 4.0 bn as of September 2022 YTD, representing a 14.3% y/y increase from USD 3.5 bn recorded over the same period in 2021, and,
b. Sufficient Forex reserves currently at USD 7.3 bn (equivalent to 4.1 months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, however it's important to note that Forex reserves have dropped by 16.5% YTD from USD 8.8 bn. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years;

Weekly Highlight:

I. **October 2022 inflation projections**

We are projecting the y/y inflation rate for October 2022 to fall within the range of 8.4%-8.8%, mainly on the back of;

i. **The decline in fuel prices**: For the period between 14th October 2022 to 15th November 2022 the prices of Super Petrol, Diesel and Kerosene declined by 0.6%, 1.2% and 0.7% to Kshs 178.3 per litre, Kshs 163.0 per litre and Kshs 146.9 per litre from Kshs 179.3 per litre, Kshs 165.0 per litre and Kshs 147.9 per litre, respectively, and,
ii. **Upward Revision of the Central Bank Rate (CBR)**: During the September sitting, the Monetary Policy Committee increased the CBR by 75 bps to 8.25%, from the previous 7.50% with the aim of anchoring inflation with the rate having marked a 5-year high in the month of September.

In our view, the decline in the fuel prices is expected to have a ripple effect on the prices of other commodities given that fuel is a major input in most sectors. Additionally, we expect maize prices to fall as we enter the harvesting season and consequently lead to a decline in the food index as maize flour is a significant contributor to the index. We also expect the MPC's decision to hike the borrowing rates by 75 bps to 8.25% in September to ease the inflationary pressures on commodities by reducing consumer spending. However, we do not expect the decision to have a significant effect on the inflation rate as the elevated pressure is largely external.

Rates in the Fixed Income market have remained relatively stable due to the relatively ample liquidity in the money market. The government is 8.7% behind its prorated borrowing target of Kshs 180.6 bn having borrowed Kshs 164.9 bn of the Kshs 581.7 bn borrowing target for the FY'2022/2023. We expect sustained gradual economic recovery as evidenced by the revenue collections of Kshs 486.0 bn in the FY'2022/2023, equivalent to a 22.7% of its target of 2.1 tn. Despite the performance, we believe that the projected budget deficit of 6.2% is relatively ambitious given the downside risks and deteriorating business environment occasioned by high inflationary pressures. We however expect the support from the IMF and World Bank to finance some of the government projects and thus help maintain a stable interest rate environment since the government is not desperate for cash. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.
